

Message Text

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PAGE 01 STATE 032744

17

ORIGIN AGR-08

INFO OCT-01 AF-06 ARA-06 EUR-12 NEA-09 ISO-00 CIAE-00

COME-00 EB-07 INR-07 LAB-04 NSAE-00 SP-02 STR-01

TRSE-00 CIEP-01 FRB-03 OMB-01 SS-15 NSC-05 L-02 H-01

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DRAFTED BY COT:WLDAVIS:FAS

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FCA:JHSTEVENSON - AGRIC (DRAFT)

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FM SECSTATE WASHDC

TO AMEMBASSY ANKARA

AMEMBASSY ATHENS

AMEMBASSY BOGOTA

AMEMBASSY BRASILIA

AMEMBASSY DAMASCUS

AMEMBASSY GUATEMALA

AMEMBASSY ISLAMABAD

AMEMBASSY MANAGUA

AMEMBASSY MEXICO

AMEMBASSY SAN SALVADOR

AMEMBASSY TEHRAN

INFO AMEMBASSY CAIRO

AMEMBASSY DAR ES SALAAM

AMEMBASSY KHARTOUM

AMEMBASSY LA PAZ

AMEMBASSY LIMA

AMEMBASSY NDJAMENA

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PAGE 02 STATE 032744

LIMITED OFFICIAL USE STATE 032744

E.O. 11652: N/A

TAGS: EAGR, ETRD, XX

SUBJECT: COTTON STOCK AND PRICE PROBLEMS

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1. SUMMARY: SEVERAL GOVERNMENTS ARE CURRENTLY FINANCING EXCESSIVE COTTON OR COTTON YARN STOCKS. FOR EXAMPLE, PAKISTAN YARN IS REPORTEDLY BEING OFFERED IN EUROPE BELOW THE REVEALING DEPRESSED COTTON LINT PRICE. TURKISH COOPERATIVE UNIONS REPORTEDLY HAVE AUTHORITY TO SELL GOT FINANCED COTTON STOCKS FOR EXPORT BELOW COST. NICARAGUAN EXPORT OFFERS ARE SIGNIFICANTLY UNDER THOSE OF COMPETITORS AND MAY WELL BE BELOW COST. ACTION POSTS ARE REQUESTED TO BRING USG CONCERN AND ANALYSIS TO THE ATTENTION OF APPROPRIATE HOST GOVERNMENT OFFICIALS. END SUMMARY.

2. IN STATING OUR ANALYSIS AND VIEWS, IT SHOULD NOT BE IMPLIED THAT U.S. CONCERN IS A PRELUDE TO ANY NEW MULTILATERAL INTERNATIONAL SOLUTIONS OR PARTICULAR USG ACTION. USG SUPPORTS PRESENT INTERNATIONAL ACTIVITIES--THE INTERNATIONAL COTTON ADVISORY COMMITTEE (ICAC) AND THE INTERNATIONAL INSTITUTE FOR COTTON (IIC)--AND SEES NO BENEFIT IN SUSTAINED EFFORTS ON COTTON IN OTHER INTERNATIONAL ORGANIZATIONS.

3. EXCESSIVE GOVERNMENT-FINANCED COTTON STOCKS ARE HELD IN SEVERAL FOREIGN PRODUCING COUNTRIES AS A RESULT OF THEIR ATTEMPTS TO BUFFER PRODUCERS OR FOREIGN EXCHANGE EARNINGS FROM THE SHARP PRICE SLIDE DURING THE LAST 12 MONTHS. THESE STOCKS ARE NO DOUBT STRAINING BUDGETARY RESOURCES IN SOME COUNTRIES AND FOREIGN EXCHANGE EARNINGS ARE BELOW EXPECTATIONS. THIS IS A NEW DEVELOPMENT. IN PRIOR YEARS THE USG HELD EXCESS STOCKS BECAUSE OF ITS HIGH PRICE SUPPORT-LOAN PROGRAM WHICH NO LONGER EXISTS. THE USG PROGRAM IS NOW MARKET-ORIENTED.

4. THE EASIEST SHORT-RUN RELIEF TO THE BUILDING BUDGETARY AND FOREIGN EXCHANGE PRESSURES IS DUMPING COTTON OR COTTON PRODUCTS ON WORLD MARKETS AT BELOW PRODUCTION COSTS WITH GOVERNMENTS LIMITED OFFICIAL USE

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PAGE 03 STATE 032744

ABSORBING LOSSES. SUCH ACTION WOULD BE VERY DETRIMENTAL TO PRICE RECOVERY. CURRENT PRICE WEAKNESS IS LARGELY DUE TO OVER-REACTION BY CONSUMERS IN 1972 AND 1973, WHICH PUSHED PRICES TO UNSUSTAINABLE LEVELS, FOLLOWED BY SHARPLY CURTAINED DEMAND. WHILE HEAVILY DEPENDENT UPON GENERAL ECONOMIC RECOVERY, MOST OBSERVERS PLACE TEXTILE RECOVERY AT MID-TO LATE-1975. ATTEMPTS TO SELL EXCESS STOCKS HELD IN FOREIGN PRODUCING COUNTRIES TO CONSUMERS AT SACRIFICE PRICES BEFORE AN UPTURN IN TEXTILE

ACTIVITY WILL ONLY DELAY PRICE RECOVERY AND DEPRESS PRICES
FURTHER.

5. THE INCREASING TENDENCY BY FOREIGN GOVERNMENTS TO INTERVENE
IN COTTON MARKETING EVEN DURING BOOM PRICES HAS LONGER-TERM
DETRIMENTAL IMPLICATIONS TO U.S. INTEREST, UNLESS INTERVENTION
ON THE MARKETING SIDE IS MATCHED BY PRODUCTION RESTRICTIONS FOR
MEDIUM- AND LONG-TERM ADJUSTMENT ALONG WITH BUDGETARY RESOURCES
TO PROVIDE THE TIME NEEDED TO MAKE THOSE ADJUSTMENTS. WITHOUT THIS
MATCHING ACTION, PRODUCTION STRUCTURES WOULD NOT BE RESPONSIVE
TO DEMAND OR PROMOTE EFFICIENT PRODUCTION. UNDER THESE CIRCUMSTANCES
EFFICIENT U.S. PRODUCERS COULD BE EXCLUDED FROM PRODUCING COTTON.
FOR MANY YEARS THE USG PRICE UMBRELLA ASSURED REASONABLE PRICE
STABILITY AND FOREIGN NON-COMMUNIST COTTON OUTPUT ROSE SHARPLY
WHILE U.S. PRODUCTION FELL. THIS PRICE STABILITY CAME AT THE EXPENSE
OF USG BUDGETARY SUPPORT AND ADMINISTERED PRODUCTION RESTRICTIONS.
EVEN THOUGH WE HAVE TRIED INTERVENTION AND FOUND IT LACKING, THE
FACT THAT FOREIGN GOVERNMENTS ARE MOVING IN THIS DIRECTION IS NOT
OUR CONCERN. OUR IMMEDIATE CONCERN IS SHORT-TERM UNFAIR MARKET
DISRUPTION. IN THE LONGER TERM, USG CONCERN CENTERS ON AGRICULTURAL
PRODUCTION STRUCTURES WHICH ARE NOT RESPONSIVE TO WORLD FIBER
AND FOOD NEEDS.

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Message Attributes

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